



STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY



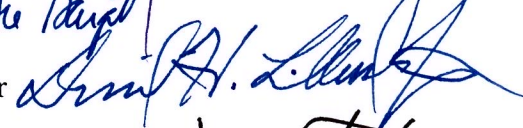

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Justin P. Wilson  
Comptroller

December 23, 2009

**Memorandum**

TO: Governor Phil Bredesen  
  
Chairman Randy McNally  
Senate Finance, Ways, & Means Committee  
  
Chairman Craig Fitzhugh  
House Finance, Ways, & Means Committee

FROM: Justin P. Wilson, Comptroller of the Treasury   
Tre Hargett, Secretary of State   
David H. Lillard Jr., State Treasurer   
M.D. Goetz, Jr., Commissioner  
Department of Finance & Administration 

SUBJECT: Revenue Estimates for FY 2009-10 and FY 2010-11

The State Funding Board met on December 14, 2009, to hear updated presentations on the State's near-term economic outlook for the fiscal years 2009-10 and 2010-11. The Board reconvened on December 17, 2009, to discuss the revenue projections.

**Total State Taxes and General Fund Revenue Estimates**

The Board is charged, in Tennessee Code Annotated Section 9-4-5202(e), with the responsibility of developing consensus ranges of state revenue growth. In doing so, the Board evaluates and interprets economic data and revenue forecasts supplied by various economists as well as persons acquainted with the Tennessee revenue system. This is a revenue estimation process and not a budgeting process. The Board does not take into consideration the State's fiscal situation when developing its consensus ranges of revenue

growth; however, the Board does strive to have the highest degree of confidence in the State's ability to achieve such growth. Fiscal considerations properly belong with those who set the State's budget - the Administration that recommends appropriation levels based upon its assessment of revenue growth and the General Assembly that adopts a *de facto* revenue estimate through its final action on the appropriations bill.

The Board heard testimony regarding the economy from Dr. William Fox of The University of Tennessee; Dr. Jeff Wallace of the University of Memphis; Mr. Jim White, Mr. Dan Cooper, and Mr. Robert Currey of the Fiscal Review Committee; and Mr. Jack Qi of the State Department of Revenue. Dr. Albert DePrince of Middle Tennessee State University was unable to attend the meeting, but submitted a written presentation. The state tax revenue estimates provided by each of the presenters are summarized in two attachments to this memorandum.

The consensus of the presenters is that there has been and there will continue to be contraction in the economy at least through the first quarter of 2010. With respect to their forecasts, the presenters cautioned that there was a higher risk of undercollecting the estimate versus overcollecting the estimate for the current fiscal year. Several of the presenters acknowledged that an economic turnaround will likely occur in the last half of fiscal year 2009-2010 or in fiscal year 2010-11. Franchise and excise tax receipts have shown surprising strength in recent months. Continued losses in sales taxes, however, have driven revenues below projections made by this Board just nine months ago.

The presenters noted that factors such as the extreme volatility in the market, constraints on consumer credit, unemployment, a real decline in personal income and the lack of consumer confidence continue to impact Tennessee's current economic condition. Even though consumer confidence has shown signs of strengthening, it remains unclear whether it will translate into increased discretionary spending. It is anticipated that the personal savings rate will level off in fiscal year 2010-11 but is currently at one of its highest points in over a decade.

The unemployment rate in Tennessee is at its highest level in decades and currently exceeds the national rate. It was suggested that the current unemployment numbers are underrepresented due to those persons who have become discouraged and stopped looking for work. This has negative implications for Tennessee's Unemployment Trust Fund. The sectors of durable goods and professional and business services continue to experience job loss. As a result of federal stimulus funds, there has been some positive growth in local government employment, health care and the public construction sector.

Tennessee has recently experienced accelerated growth in sales for light vehicles and homes. While some of the growth in car sales can be attributed to the federally subsidized "Cash for Clunkers" program, there have also been signs that car sales are improving from their lowest point in recent months.. The growth in home sales can be attributed in



part to the implementation of the federal homebuyer tax credit programs that are set to expire at the end of June 2010.

Despite the accelerated growth in these areas, sales tax and privilege tax collections continue to experience negative growth. Year-to-date there has been a significant increase in the performance of the franchise and excise tax. The over performance of this tax has offset the negative sales tax collection. However, sales tax collection appears to be poised for upward growth in fiscal year 2010-11.

Since May 2009 when the last growth estimates were made, the Tennessee economy has continued to decline. The Board developed the following summarized consensus estimates expressed in ranges of growth rates in State tax revenue collections. These estimates will be reevaluated by the Board before the fiscal year 2010-11 budget is finalized by the General Assembly.

	FY 2009-10		FY 2010-11	
	Low	High	Low	High
Total State Taxes	-1.50%	-0.25%	1.70%	2.20%
General Fund Only	-2.35%	-0.85%	1.80%	2.30%

The effects of the federal stimulus package on State revenue collections are still unknown. However, various aspects of stimulus projects have been and will continue to be subject to Tennessee taxes.

While it is difficult to precisely predict revenue ranges due to uncertainty regarding anticipated economic recovery, the Board believes that these ranges are reasonable and appropriate for use in State budgeting. These ranges are based on statutory tax provisions enacted through the 2009 session of the General Assembly. The higher estimates assume positive growth in the economy in the last half of fiscal year 2009-10 and the lower estimates assume a slower economic recovery.

#### Net Lottery Proceeds Revenue Estimates and Long-Term Funding Needs Estimates

The State Funding Board also received presentations regarding the Tennessee Education Lottery (TEL). Legislation in 2003 created the Tennessee Education Lottery Corporation (TELC) (Tennessee Code Annotated Sections 4-51-101 et seq.) Tennessee Code Annotated Section 4-51-111(c) requires the Board to establish a projected revenue range for the "Net Lottery Proceeds" [defined in Section 4-51-102(14)] for the remainder of the current fiscal year and for the four succeeding fiscal years.

Mr. Robert Currey, Chief Economist with the Fiscal Review Committee (FRC) presented to the Board the FRC's lottery projections. Mr. Currey reviewed the fiscal year 2008-09 actual performance of the TELC and reported \$265,486,128 in Net Lottery Proceeds. In looking at fiscal year 2009-10, Mr. Currey's estimate forecasted slight growth in Net



Lottery Proceeds. His assumptions included instant game growth and net sales growth for mega-jackpot games of approximately 18.4%. Mr. Currey estimated lottery expenses for fiscal year 2009-10 and 2010-11 to be approximately 74.2% and 74.4%, respectively, of total net revenues. The estimated Net Lottery Proceeds available for deposit into the Lottery Education Account for fiscal years 2009-10 and 2010-11 were estimated to be 25.8% and 25.6%, respectively. Due to the high level of uncertainty, Mr. Currey projected Net Lottery Proceeds and after-school funding for fiscal year 2011-12 through fiscal year 2013-14 to be fixed at the estimates for fiscal year 2010-11.

Ms. Rebecca Hargrove, Chief Executive Officer, and Mr. Andy Davis, Chief Financial and Technology Officer, both of the TELC, also presented their estimate of total and Net Lottery Proceeds for the current fiscal year and four succeeding fiscal years. TELC also projected slight growth in Net Lottery Proceeds for fiscal year 2009-10 and modest growth in Net Lottery Proceeds for fiscal year 2010-11 through 2013-14. Ms. Hargrove reviewed significant factors impacting TELC estimates. For fiscal year 2009-10, TELC anticipates instant ticket growth and larger Powerball jackpots. Additionally, the TELC plans to introduce the MEGA MILLIONS game in early calendar year 2010. This game is expected to produce between \$25 and \$30 million in incremental online games' gross revenues on an annualized basis.

Tennessee Code Annotated Section 4-51-111(c)(2)(A)(ii) requires the Board with the assistance of the Tennessee Student Assistance Corporation (TSAC) to project long-term funding needs of the lottery scholarship and grant programs. These projections are to be done to determine if adjustments to lottery scholarship and grant programs are needed to prevent the funding for these programs from exceeding Net Lottery Proceeds. For this purpose, the Board heard from Mr. David L. Wright, Assistant Director for Policy Planning and Research of the Tennessee Higher Education Commission (THEC), and from Mr. Tim Phelps, Associate Executive Director for Grants and Scholarship Programs of TSAC.

They presented an increased projection for fiscal year 2009-10, which estimates there will be 101,300 awards, with a projected cost of \$287.5 million. Furthermore, Mr. Wright presented estimates for fiscal year 2010-11 of 113,000 awards, with a projected cost of \$312.5 million. Additionally, it is estimated that there will be 125,350 awards in fiscal year 2011-12, with a projected cost of \$337.4 million, 138,650 awards in fiscal year 2012-13, with projected cost of \$361.4 million, and 154,000 awards in 2013-14, with a projected cost of \$387.9 million. These awards include all lottery-funded scholarship programs as authorized through the 2009 session of the General Assembly, including Hope Scholarship, General Assembly Merit Scholarship, ASPIRE Award, HOPE Access Grant, Wilder-Naifeh Technical Skills Grant, Nontraditional Student Grant, Foster Child Tuition Grant, Dual Enrollment Grant, Math & Science Teacher Loan Forgiveness Program, Helping Heroes Grant, the Rural Health Loan Forgiveness Program and Tennessee Student Assistance Award.



The estimates provided by each of the presenters are summarized in an attachment to this memorandum. Consensus was reached on the following estimates of the range for Net Lottery Proceeds to be deposited in the Lottery for Education Account and used for the various statutory purposes:

Net Lottery Proceeds	FY2009-10	FY2010-11	FY2011-12	FY2012-13	FY2013-14
Low	\$257,000,000	\$257,000,000	\$257,000,000	\$257,000,000	\$257,000,000
High	\$267,000,000	\$269,700,000	\$272,400,000	\$275,100,000	\$277,900,000

The State Funding Board considered the joint projections for lottery scholarship and grant program funding needs provided by TSAC and THEC and accepted their recommended projections. Consensus was reached on the following projections of the mid-point for estimated Net Lottery Proceeds to be deposited in the Lottery for Education Account compared with scholarship and grant funding needs:

	FY2009-10	FY2010-11	FY2011-12	FY2012-13	FY2013-14
Net Lottery Proceeds (Mid-point of Range)	\$262,000,000	\$263,300,000	\$264,700,000	\$266,000,000	\$267,400,000
Scholarship and Grant Funding Needs	\$287,500,000	\$312,500,000	\$337,400,000	\$361,400,000	\$387,900,000
Deficit	(\$25,500,000)	(\$49,200,000)	(\$72,700,000)	(\$95,400,000)	(\$120,500,000)

These estimates and projections assume no new legislative changes regarding the TELC and its authority or to the scholarship and grant programs. The Board agreed with the presenters that Net Lottery Proceeds are difficult to project. The Board noted that for fiscal year 2009-10 the revised projected current revenues<sup>1</sup> of the Lottery for Education Account are less than the revised appropriation requirements<sup>2</sup>; however funds are available in the unobligated reserve.<sup>3</sup>

Attached are copies of the letters from the Department of Education requesting \$3.023 million received pursuant to Tennessee Code Annotated Section 4-51-11(c)(2)(B) which states:

<sup>1</sup> Revenues are Net Lottery Proceeds (a mid-point of \$262 million) and interest earnings (\$16.2 million).

<sup>2</sup> Appropriation requirements are higher education scholarship programs (\$287.5 million), Pre-Kindergarten (\$3 million) and administration (\$4.1 million).

<sup>3</sup> Based on the appropriation requirements, this will require utilization of \$16.4 million from the unobligated reserve. Utilizing the unobligated reserve reduces future interest earnings; based on the projections it appears that in fiscal year 2013-14 the unobligated reserve amount and interest earnings will not be sufficient to fund the deficit.

Before December 15, 2003, and before December 15 in each succeeding year, appropriate state agencies shall submit to the funding board and to the governor their recommendations for other educational programs and purposes consistent with article XI, Section 5 of the Tennessee Constitution based on the difference between the funding board's projections and recommendations for the lottery scholarship program based on the report submitted pursuant to subdivision (c)(2)(A). In no event shall such recommendations exceed the projections of the funding board for a specific fiscal year.

Each of us stands ready to discuss this further at your convenience.

Attachments

Revenue Estimates (2)  
Lottery Estimates  
TSAC/THEC Report  
Letters from Dept. of Education

cc. The Honorable Ron Ramsey  
The Honorable Kent Williams



**COMPARISON OF ESTIMATED STATE TAX REVENUE FOR  
FISCAL YEAR 2009-2010**

(Accrual - Basis Estimates)

2009-2010

DEPARTMENT OF REVENUE	2008-2009		% CHANGE OVER 08-09		% CHANGE OVER 08-09		% CHANGE OVER 08-09		% CHANGE OVER 08-09
SOURCE OF REVENUE	ACTUAL	BUDGETED ESTIMATE	ACTUAL	DR. FOX ESTIMATE	ACTUAL	FISCAL REVIEW ESTIMATE	ACTUAL	REVENUE DEPT. ESTIMATE	ACTUAL
Sales and use Tax	\$ 6,320,798,300	\$ 6,414,300,000	1.48%	\$ 6,200,000,000	-1.91%	\$ 6,207,000,000	-1.80%	\$ 6,090,300,000	-3.65%
Gasoline Tax	601,799,400	605,900,000	0.68%	615,000,000	2.19%	616,000,000	2.36%	614,500,000	2.11%
Motor Fuel Tax	154,496,200	164,200,000	6.28%	148,000,000	-4.20%	153,000,000	-0.97%	160,000,000	3.56%
Gasoline Inspection Tax	61,577,100	62,600,000	1.66%	61,500,000	-0.13%	63,424,000	3.00%	63,990,000	3.92%
Motor Vehicle Registration Tax	238,817,700	251,200,000	5.18%	248,400,000	4.01%	245,000,000	2.59%	243,119,000	1.80%
Income Tax	220,449,800	188,000,000	-14.72%	178,000,000	-19.26%	190,000,000	-13.81%	170,920,000	-22.47%
Privilege Tax - Less Earmarked Portion	232,657,000	261,700,000	12.48%	214,000,000	-8.02%	230,000,000	-1.14%	228,750,000	-1.68%
Gross Receipts Tax - TVA	285,101,700	293,000,000	2.77%	317,900,000	11.50%	317,909,000	11.51%	317,900,000	11.50%
Gross Receipts Tax - Other	32,392,600	22,900,000	-29.30%	20,000,000	-38.26%	22,500,000	-30.54%	21,110,000	-34.83%
Beer Tax	17,796,900	16,300,000	-8.41%	18,200,000	2.27%	17,700,000	-0.54%	17,900,000	0.58%
Alcoholic Beverage Tax	44,081,100	46,900,000	6.39%	45,600,000	3.45%	44,800,000	1.63%	44,600,000	1.18%
Franchise & Excise Taxes	1,361,786,800	1,340,300,000	-1.58%	1,415,000,000	3.91%	1,443,495,000	6.00%	1,425,000,000	4.64%
Inheritance and Estate Tax	80,140,000	97,700,000	21.91%	80,100,000	-0.05%	80,000,000	-0.17%	85,600,000	6.81%
Tobacco Tax	299,987,400	292,200,000	-2.60%	305,000,000	4.67%	300,000,000	0.00%	319,000,000	6.34%
Motor Vehicle Title Fees	9,804,800	11,000,000	12.19%	10,200,000	4.03%	10,000,000	1.99%	10,340,000	5.46%
Mixed Drink Tax	54,110,300	56,000,000	3.49%	55,000,000	1.64%	53,400,000	-1.31%	53,750,000	-0.67%
Business Tax	135,036,800	153,600,000	13.75%	155,000,000	14.78%	153,300,000	13.52%	153,180,000	13.44%
Severance Tax	2,129,700	2,000,000	-6.09%	2,000,000	-6.09%	2,200,000	3.30%	2,100,000	-1.39%
Coin Operated Amusement Tax	353,400	300,000	-15.11%	300,000	-15.11%	300,000	-15.11%	300,000	-15.11%
Unauthorized Substance Tax	213,000	1,200,000	NA	-	NA	(1,800,000)	NA	-	NA
TOTAL DEPARTMENT OF REVENUE	\$ 10,153,530,000	\$ 10,281,300,000	1.26%	\$ 10,089,200,000	-0.63%	\$ 10,148,228,000	-0.05%	\$ 10,022,359,000	-1.29%
GENERAL FUND ONLY (2)	\$ 8,324,789,900	\$ 8,407,200,000	0.99%	\$ 8,231,300,000	-1.12%	\$ 8,283,428,000	-0.50%	\$ 8,163,559,000	-1.94%
Budgeted Est. Compared to New Est. - Total				\$ (192,100,000)		\$ (133,072,000)		\$ (256,941,000)	
Budgeted Est. Compared to New Est. - Gen. Fund				\$ (175,900,000)		\$ (123,772,000)		\$ (243,641,000)	
SELECTED TAXES	ACTUAL	BUDGETED	%	DR. FOX	%	FISCAL REVIEW	%	REVENUE DEPT.	%
SALES AND USE TAX	\$ 6,320,798,300	\$ 6,414,300,000	1.48%	\$ 6,200,000,000	-1.91%	\$ 6,207,000,000	-1.80%	\$ 6,090,300,000	-3.65%
FRANCHISE AND EXCISE TAXES	1,361,786,800	1,340,300,000	-1.58%	1,415,000,000	3.91%	1,443,495,000	6.00%	1,434,1900,000	4.64%
INCOME TAX	220,449,800	188,000,000	-14.72%	178,000,000	-19.26%	190,000,000	-13.81%	170,920,000	-22.47%
ROAD USER TAXES	1,056,690,400	1,083,900,000	2.57%	1,072,900,000	1.53%	1,077,424,000	1.96%	1,081,609,000	2.36%
ALL OTHER TAXES	1,193,804,700	1,254,800,000	5.11%	1,223,300,000	2.47%	1,230,309,000	3.06%	1,254,530,000	5.09%

**SELECTED TAXES**

	ACTUAL	BUDGETED	%	DR. FOX	%	FISCAL REVIEW	%	REVENUE DEPT.	%	DR. DePRINCE
SALES AND USE TAX	\$ 6,320,798,300	\$ 6,414,300,000	1.48%	\$ 6,200,000,000	-1.91%	\$ 6,207,000,000	-1.80%	\$ 6,090,300,000	-3.65%	\$ 6,133,200,000
FRANCHISE AND EXCISE TAXES	1,361,786,800	1,340,300,000	-1.58%	1,415,000,000	3.91%	1,443,495,000	6.00%	1,425,000,000	4.64%	1,341,900,000
INCOME TAX	220,449,800	188,000,000	-14.72%	178,000,000	-19.26%	190,000,000	-13.81%	170,920,000	-22.47%	181,300,000
ROAD USER TAXES	1,056,690,400	1,083,900,000	2.57%	1,072,900,000	1.53%	1,077,424,000	1.96%	1,081,609,000	2.36%	1,051,900,000
ALL OTHER TAXES	1,193,804,700	1,254,800,000	5.11%	1,223,300,000	2.47%	1,230,309,000	3.06%	1,254,530,000	5.09%	1,210,800,000

- (1) Privilege Tax estimates are reduced by \$10.7 million for the earmarked portion of the tax.
- (2) F&A calculated the General Fund distribution for all presenters.
- \* F&A distributed taxes for Dr. DePrince based on ratios for 2009-2010 budgeted collections.
- \*\* F&A distributed the Gross Receipts Taxes for Dr. DePrince and Dr. Wallace based on 2009-2010 budgeted Gross Receipts Tax - Other collections.
- \*\*\* Dr. Wallace's estimate is a forecast of total taxes and NOT the sum of the individual tax forecasts. Individual taxes not forecast are included in the total. The General Fund estimate is based on the General Fund ratio for the 2009-2010 budgeted estimate.



**COMPARISON OF ESTIMATED STATE TAX REVENUE FOR  
FISCAL YEAR 2010-2011**

(Accrual - Basis Estimates)

2010-2011

DEPARTMENT OF REVENUE	DR. FOX ESTIMATE	% CHANGE OVER 09-10 ESTIMATE	FISCAL REVIEW ESTIMATE	% CHANGE OVER 09-10 ESTIMATE	REVENUE DEPT. ESTIMATE	% CHANGE OVER 09-10 ESTIMATE	DR. DEPRINCE ESTIMATE	% CHANGE OVER 09-10 ESTIMATE	DR. WALLACE ESTIMATE ***	% CHANGE OVER 09-10 ESTIMATE
<b>SOURCE OF REVENUE</b>										
Sales and use Tax	\$ 6,417,000,000	3.50%	\$ 6,300,105,000	1.50%	\$ 6,218,000,000	2.10%	\$ 6,251,700,000	1.93%	\$ 6,200,000,000	3.33%
Gasoline Tax	621,200,000	1.01%	625,240,000	1.50%	618,000,000	0.57%	613,800,000	0.97%	632,000,000	0.32%
Motor Fuel Tax	152,400,000	2.97%	156,825,000	2.50%	167,300,000	4.56%	144,000,000	1.41%	153,200,000	2.07%
Gasoline Inspection Tax	62,700,000	1.95%	64,692,000	2.00%	65,270,000	2.00%	62,500,000 *	2.63%	64,700,000	1.57%
Motor Vehicle Registration Tax	255,900,000	3.02%	252,350,000	3.00%	248,700,000	2.30%	245,300,000	1.74%	243,000,000	1.25%
Income Tax	188,700,000	6.01%	199,500,000	5.00%	175,400,000	2.62%	179,400,000	-1.05%	200,000,000	2.04%
Privilege Tax - Less Earmarked Portion	222,600,000	4.02%	236,900,000	3.00%	229,900,000	0.50%	238,600,000 (1)	2.84%	239,300,000 (1)	5.05%
Gross Receipts Tax - TVA	324,300,000	2.01%	321,088,000	1.00%	310,900,000	-2.20%	301,700,000	1.62%	327,100,000	2.96%
Gross Receipts Tax - Other	20,400,000	2.00%	23,625,000	5.00%	21,610,000	2.37%	22,900,000 **	0.00%	22,900,000	0.00%
Beer Tax	18,700,000	2.75%	18,054,000	2.00%	18,400,000	2.79%	16,300,000 *	2.52%	18,700,000	8.09%
Alcoholic Beverage Tax	47,500,000	4.17%	45,920,000	2.50%	45,450,000	1.91%	46,900,000 *	2.85%	46,400,000	1.98%
Franchise & Excise Taxes	1,457,500,000	3.00%	1,501,234,000	4.00%	1,454,000,000	2.04%	1,363,400,000 *	1.60%	1,463,250,000	4.15%
Inheritance and Estate Tax	80,100,000	0.00%	82,400,000	3.00%	93,700,000	9.46%	97,600,000 *	2.63%	76,650,000	2.20%
Tobacco Tax	311,100,000	2.00%	301,500,000	0.50%	326,600,000	2.38%	291,900,000 *	2.67%	306,333,000	1.00%
Motor Vehicle Title Fees	10,300,000	0.98%	10,250,000	2.50%	10,790,000	4.35%	11,000,000 *	2.80%	10,600,000	2.91%
Mixed Drink Tax	57,800,000	5.09%	54,468,000	2.00%	54,810,000	1.97%	55,900,000 *	2.57%	54,500,000	2.64%
Business Tax	162,800,000	5.03%	157,899,000	3.00%	154,600,000	0.93%	153,500,000 *	2.68%	137,000,000	1.48%
Severance Tax	2,000,000	0.00%	2,266,000	3.00%	1,800,000	-14.29%	2,000,000 *	5.26%	NA	NA
Coin Operated Amusement Tax	300,000	0.00%	300,000	0.00%	370,000	23.33%	300,000 *	0.00%	NA	NA
Unauthorized Substance Tax	-	NA	-	NA	-	NA	1,200,000 *	0.00%	NA	NA
<b>TOTAL DEPARTMENT OF REVENUE</b>	<b>\$10,413,300,000</b>	<b>3.21%</b>	<b>\$10,354,616,000</b>	<b>2.03%</b>	<b>\$10,215,600,000</b>	<b>1.93%</b>	<b>\$10,099,900,000</b>	<b>1.82%</b>	<b>\$10,500,000,000</b>	<b>2.94%</b>
<b>GENERAL FUND ONLY (2)</b>	<b>\$ 8,519,600,000</b>	<b>3.50%</b>	<b>\$ 8,458,916,000</b>	<b>2.12%</b>	<b>\$ 8,336,500,000</b>	<b>2.12%</b>	<b>\$ 8,253,200,000</b>	<b>1.99%</b>	<b>\$ 8,586,000,000</b>	<b>2.94%</b>
Growth over FY 09 Budgeted Est. - Total	\$ 132,000,000		\$ 73,316,000		\$ (65,700,000)		\$ (181,400,000)		\$ 218,700,000	
Growth over FY 09 Budgeted Est. - Gen. Fund	\$ 112,400,000		\$ 51,716,000		\$ (70,700,000)		\$ (154,000,000)		\$ 178,800,000	
Revised Est. Compared to New Est. - Total	\$ 324,100,000		\$ 206,388,000		\$ 193,241,000		\$ 180,800,000		\$ 300,000,000	
Revised Est. Compared to New Est. - Gen. Fund	\$ 288,300,000		\$ 175,488,000		\$ 172,941,000		\$ 160,700,000		\$ 245,300,000	
<b>SELECTED TAXES</b>	<b>DR. FOX</b>	<b>%</b>	<b>FISCAL REVIEW</b>	<b>%</b>	<b>REVENUE DEPT.</b>	<b>%</b>	<b>DR. DEPRINCE</b>	<b>%</b>	<b>DR. WALLACE</b>	<b>%</b>
SALES AND USE TAX	\$ 6,417,000,000	3.50%	\$ 6,300,105,000	1.50%	\$ 6,218,000,000	2.10%	\$ 6,251,700,000	1.93%	\$ 6,200,000,000	3.33%
FRANCHISE AND EXCISE TAXES	1,457,500,000	3.00%	1,501,234,000	4.00%	1,454,000,000	2.04%	1,363,400,000	1.60%	1,463,250,000	4.15%
INCOME TAX	188,700,000	6.01%	199,500,000	5.00%	175,400,000	2.62%	179,400,000	-1.05%	200,000,000	2.04%
ROAD USER TAXES	1,092,200,000	1.80%	1,099,107,000	2.01%	1,099,270,000	1.63%	1,065,600,000	1.30%	1,092,900,000	0.84%
ALL OTHER TAXES	1,257,900,000	2.83%	1,254,670,000	1.98%	1,268,930,000	1.15%	1,239,800,000	2.40%	1,543,850,000	1.89%

(1) Privilege Tax estimates are reduced by \$10.7 million for the earmarked portion of the tax.

(2) F&A calculated the General Fund distribution for all presenters.

\* F&A distributed taxes for Dr. DePrince based on ratios for 2009-2010 budgeted collections.

\*\* F&A distributed the Gross Receipts Taxes for Dr. DePrince based on 2009-2010 budgeted Gross Receipts Tax - TVA collections.

\*\*\* Dr. Wallace's estimate is a forecast of total taxes and NOT the sum of the individual tax forecasts. Individual taxes not forecast are included in the total. The General Fund estimate is based on the General Fund ratio for the 2009-2010 budgeted estimate.



**Net Lottery Proceeds Estimates**  
**State Funding Board Staff Recommendation**  
**Actual 2008-2009 and Estimated 2009-2010 Through 2013-2014**  
**December 17, 2009**

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	<b>2008-2009 Actual</b>	<b>2009-2010 Revised</b>	<b>%</b>	<b>2010-2011 Estimated</b>	<b>%</b>	<b>2011-2012 Estimated</b>	<b>%</b>	<b>2012-2013 Estimated</b>	<b>%</b>	<b>2013-2014 Estimated</b>	<b>%</b>
<b>Lottery Corporation</b>											
Low	265,486,000	262,102,000	-1.27%	264,000,000	0.72%	266,000,000	0.76%	269,000,000	1.13%	272,000,000	1.12%
High	265,486,000	272,420,000	2.61%	274,000,000	0.58%	276,000,000	0.73%	279,000,000	1.09%	282,000,000	1.08%
Mid-Range Estimate	265,486,000	267,300,000	0.68%	269,000,000	0.64%	271,000,000	0.74%	274,000,000	1.11%	277,000,000	1.09%
<b>Fiscal Review Staff</b>											
Low	265,486,000	262,386,000	-1.17%	265,870,000	1.33%						
Mean	265,486,000	268,114,000	0.99%	269,350,000	0.46%						
High	265,486,000	273,841,000	3.15%	272,840,000	-0.37%						
<b>Recommended Range</b>											
Low	265,486,000	257,000,000	-3.20%	257,000,000	0.00%	257,000,000	0.00%	257,000,000	0.00%	257,000,000	0.00%
High	265,486,000	267,000,000	0.57%	269,700,000	1.01%	272,400,000	1.00%	275,100,000	0.99%	277,900,000	1.02%



RICHARD G. RHODA  
*Executive Director*

STATE OF TENNESSEE  
**HIGHER EDUCATION COMMISSION**  
PARKWAY TOWERS, SUITE 1900  
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PHIL BREDESEN  
*Governor*

December 14, 2009

**MEMORANDUM**

To: State Funding Board

From: David L. Wright, Tennessee Higher Education Commission  
Tim Phelps, Tennessee Student Assistance Corporation

Subject: Tennessee Education Lottery Scholarship Program Projections

Pursuant to T.C.A. 4-51-111(c)(2)(A)(ii), the Tennessee Higher Education Commission (THEC) and Tennessee Student Assistance Corporation (TSAC) have collaborated to project expenditures in lottery scholarship and grant programs for the 2009-10 fiscal year and the next four fiscal years.

The figures below incorporate data for all lottery-funded programs, including the HOPE Scholarship, General Assembly Merit Scholarship, ASPIRE Award, HOPE Access Grant, Wilder-Naifeh Technical Skills Grant, Nontraditional Student Grant, Dual Enrollment Grant, Helping Heroes Grant, Foster Child Tuition Grant, Rural Health Loan Forgiveness Program, Math & Science Teacher Loan Forgiveness Program, and Tennessee Student Assistance Award.

<b>Fiscal Year</b>	<b>Total TELS Expenditures</b>
2008-09 actual	\$266.6 M
2009-10 estimated	\$287.5 M
2010-11 projected	\$312.5 M
2011-12 projected	\$337.4 M
2012-13 projected	\$361.4 M
2013-14 projected	\$387.9 M

Program expenditure projections are primarily based on increases to the HOPE scholarship, which accounts for 90 percent of overall program costs. Changes in HOPE scholarship expenditures are largely driven by three factors, two of which increase projected outlays. Recent economic conditions generated significant enrollment increases throughout higher education that are projected to be sustained through 2013-14. Additionally, implementation of the Tennessee Diploma Project is expected to increase the overall academic preparation of high school graduates, making more students HOPE-eligible. The third factor, which decreases the HOPE scholarship projection, is the slight decline in expected high school graduates over the next several years. Finally, projected expenditures for the TELS program are affected by a continuation of the relatively rapid growth in both the Wilder-Naifeh and Dual Enrollment Grant programs. Program details for these projections are attached.

Please let us know if you have questions or need anything further.

Attachment



# Tennessee Education Lottery Scholarship Program History and Projections

<u>2004-2005</u>	<u>Fall</u>	<u>Annual Increase</u>	<u>Spring</u>	<u>Annual Increase</u>	<u>Total</u>	<u>Annual Increase</u>
HOPE	\$45,071,569		\$41,578,620		\$86,650,189	
HOPE Access	\$82,640		\$69,920		\$152,560	
Wilder-Naifeh	\$2,353,757		\$4,259,516		\$6,613,273	
<b>Total</b>					<b>\$93,416,022</b>	
 <u>2005-2006</u>	 <u>Fall</u>		 <u>Spring</u>		 <u>Total</u>	
HOPE	\$65,147,811	<b>44.5%</b>	\$60,998,049	<b>46.7%</b>	\$126,145,860	<b>45.6%</b>
HOPE Access	\$262,201	<b>217.3%</b>	\$228,093	<b>226.2%</b>	\$490,296	<b>221.4%</b>
Wilder-Naifeh	\$4,350,277	<b>84.8%</b>	\$3,444,675	<b>-19.1%</b>	\$7,794,953	<b>17.9%</b>
Dual Enrollment	\$1,060,000		\$1,000,000		\$2,060,000	
<b>Total</b>					<b>\$136,491,109</b>	
 <u>2006-2007</u>	 <u>Fall</u>		 <u>Spring</u>		 <u>Total</u>	
HOPE	\$92,918,932	<b>42.6%</b>	\$86,423,144	<b>41.7%</b>	\$179,342,076	<b>42.2%</b>
HOPE Access	\$343,926	<b>31.2%</b>	\$295,790	<b>29.7%</b>	\$639,716	<b>30.5%</b>
Wilder-Naifeh	\$4,047,498	<b>-7.0%</b>	\$4,032,415	<b>17.1%</b>	\$8,079,913	<b>3.7%</b>
Dual Enrollment	\$1,850,000	<b>74.5%</b>	\$1,750,000	<b>75.0%</b>	\$3,600,000	<b>74.8%</b>
<b>Total</b>					<b>\$191,661,706</b>	
 <u>2007-2008</u>	 <u>Fall</u>		 <u>Spring</u>		 <u>Total</u>	
HOPE	\$108,738,096	<b>17.0%</b>	\$99,401,245	<b>15.0%</b>	\$208,139,341	<b>16.1%</b>
HOPE Access	\$395,098	<b>14.9%</b>	\$343,402	<b>16.1%</b>	\$738,500	<b>15.4%</b>
Wilder-Naifeh	\$5,754,982	<b>42.2%</b>	\$6,055,040	<b>50.2%</b>	\$11,810,022	<b>46.2%</b>
Dual Enrollment	\$2,450,000	<b>32.4%</b>	\$2,350,000	<b>34.3%</b>	\$4,800,000	<b>33.3%</b>
<b>Total</b>					<b>\$225,487,863</b>	
 <u>2008-2009</u>	 <u>Fall</u>		 <u>Spring</u>		 <u>Total</u>	
HOPE	\$123,326,852	<b>13.4%</b>	\$115,838,020	<b>16.5%</b>	\$239,164,872	<b>14.9%</b>
HOPE Access	\$465,108	<b>17.7%</b>	\$411,906	<b>19.9%</b>	\$877,014	<b>18.8%</b>
Wilder-Naifeh	\$6,169,781	<b>7.2%</b>	\$7,146,324	<b>18.0%</b>	\$13,316,105	<b>12.8%</b>
Dual Enrollment	\$2,908,995	<b>18.7%</b>	\$2,898,333	<b>23.3%</b>	\$5,807,328	<b>21.0%</b>
TSAA					\$6,800,000	
Rural Health					\$274,000	
Helping Heroes					\$365,000	
<b>Total</b>					<b>\$266,604,319</b>	
 <u>2009-10</u>	 <u>Fall</u>		 <u>Spring</u>		 <u>Total</u>	
HOPE	\$132,800,000	<b>7.7%</b>	\$122,600,000	<b>5.8%</b>	\$255,400,000	<b>6.8%</b>
HOPE Access	\$500,000	<b>7.5%</b>	\$425,000	<b>3.2%</b>	\$925,000	<b>5.5%</b>
Wilder-Naifeh	\$8,000,000	<b>29.7%</b>	\$8,000,000	<b>11.9%</b>	\$16,000,000	<b>20.2%</b>
Dual Enrollment	\$3,600,000	<b>23.8%</b>	\$3,400,000	<b>17.3%</b>	\$7,000,000	<b>20.5%</b>
TSAA					\$6,800,000	
Rural Health					\$600,000	
Helping Heroes					\$750,000	
<b>Total</b>					<b>\$287,475,000</b>	

## Tennessee Education Lottery Scholarship Program History and Projections

<u>2010-11</u>	<u>Fall</u>	<u>Annual Increase</u>	<u>Spring</u>	<u>Annual Increase</u>	<u>Total</u>	<u>Annual Increase</u>
HOPE	\$143,424,000	8.0%	\$132,391,385	8.0%	\$275,815,385	8.0%
HOPE Access	\$512,000	2.4%	\$436,148	2.6%	\$948,148	2.5%
Wilder-Naifeh	\$9,600,000	20.0%	\$9,600,000	20.0%	\$19,200,000	20.0%
Dual Enrollment	\$4,300,000	19.4%	\$4,100,000	20.6%	\$8,400,000	20.0%
TSAA					\$6,800,000	
Rural Health					\$600,000	
Helping Heroes					\$750,000	
<b>Total</b>					<b>\$312,513,533</b>	
<u>2011-12</u>	<u>Fall</u>		<u>Spring</u>		<u>Total</u>	
HOPE	\$153,463,680	7.0%	\$141,658,782	7.0%	\$295,122,462	7.0%
HOPE Access	\$524,288	2.4%	\$446,616	2.4%	\$970,904	2.4%
Wilder-Naifeh	\$11,520,000	20.0%	\$11,520,000	20.0%	\$23,040,000	20.0%
Dual Enrollment	\$5,140,000	19.5%	\$4,940,000	20.5%	\$10,080,000	20.0%
TSAA					\$6,800,000	
Rural Health					\$600,000	
Helping Heroes					\$750,000	
<b>Total</b>					<b>\$337,363,365</b>	
<u>2012-13</u>	<u>Fall</u>		<u>Spring</u>		<u>Total</u>	
HOPE	\$162,671,501	6.0%	\$150,158,308	6.0%	\$312,829,809	6.0%
HOPE Access	\$536,871	2.4%	\$457,334	2.4%	\$994,205	2.4%
Wilder-Naifeh	\$13,824,000	20.0%	\$13,824,000	20.0%	\$27,648,000	20.0%
Dual Enrollment	\$6,200,000	20.6%	\$5,896,000	19.4%	\$12,096,000	20.0%
TSAA					\$6,800,000	
Rural Health					\$300,000	
Helping Heroes					\$750,000	
<b>Total</b>					<b>\$361,418,015</b>	
<u>2013-14</u>	<u>Fall</u>		<u>Spring</u>		<u>Total</u>	
HOPE	\$172,431,791	6.0%	\$159,167,807	6.0%	\$331,599,598	6.0%
HOPE Access	\$549,756	2.4%	\$468,311	2.4%	\$1,018,066	2.4%
Wilder-Naifeh	\$16,588,800	20.0%	\$16,588,800	20.0%	\$33,177,600	20.0%
Dual Enrollment	\$7,400,000	19.4%	\$7,115,200	20.7%	\$14,515,200	20.0%
TSAA					\$6,800,000	
Rural Health					\$0	
Helping Heroes					\$750,000	
<b>Total</b>					<b>\$387,860,464</b>	





**PHIL BREDESEN**  
GOVERNOR

STATE OF TENNESSEE  
**DEPARTMENT OF EDUCATION**  
6<sup>th</sup> FLOOR, ANDREW JOHNSON TOWER  
710 JAMES ROBERTSON PARKWAY  
NASHVILLE, TN 37243-0375

**TIMOTHY K. WEBB, Ed.D.**  
COMMISSIONER

**TO:** M. D. Goetz, Jr., Commissioner  
Department of Finance and Administration

**FROM:** Timothy K. Webb

A handwritten signature in black ink that reads "Timothy K. Webb".

**DATE:** December 14, 2009

**SUBJECT:** Request for \$3 Million from Net Lottery Proceeds for Early Education for  
FY 2010-2011

Pursuant to Tenn. Code Ann. 4-51-111(c)(2)(B) which states prior to December 15, "appropriate state agencies shall submit to the funding board and to the governor their recommendations for other education programs and purposes consistent with article XI, § 5 of the Tennessee Constitution", the Department of Education requests the allotment of \$3 million from net lottery proceeds in FY 2010-2011 for Early Education Programs.

These funds will support improvements and enhancements for educational programs and purposes and such net proceeds shall be used to supplement, not supplant, non-lottery educational resources for educational programs and purposes.

Your consideration and approval of this request is appreciated. If you have any questions, please contact Robert Greene, Deputy Commissioner, at (615) 741-5158.

cc: Bill Bradley



**PHIL BREDESEN**  
GOVERNOR

STATE OF TENNESSEE  
**DEPARTMENT OF EDUCATION**  
6<sup>th</sup> FLOOR, ANDREW JOHNSON TOWER  
710 JAMES ROBERTSON PARKWAY  
NASHVILLE, TN 37243-0375

**TIMOTHY K. WEBB, Ed.D.**  
COMMISSIONER

**TO:** M. D. Goetz, Jr., Commissioner  
Department of Finance and Administration

**FROM:** Timothy K. Webb

A handwritten signature in dark ink, reading "Timothy K. Webb", is written over the printed name in the "FROM:" field.

**DATE:** December 14, 2009

**SUBJECT:** Request for \$23,000 from Net Lottery Proceeds for Lottery Scholarship Day for FY 2010-2011

Pursuant to Tenn. Code Ann. 4-51-111(c)(2)(B) which states prior to December 15, "appropriate state agencies shall submit to the funding board and to the governor their recommendations for other education programs and purposes consistent with article XI, § 5 of the Tennessee Constitution", the Department of Education requests the allotment of \$23,000 from net lottery proceeds in FY 2010-2011 for Lottery Scholarship Day.

These funds will support improvements and enhancements for educational programs and purposes and such net proceeds shall be used to supplement, not supplant, non-lottery educational resources for educational programs and purposes.

Your consideration and approval of this request is appreciated. If you have any questions, please contact Robert Greene, Deputy Commissioner, at (615) 741-5158.

cc: Bill Bradley